

Downside Protection: Lessons learned, 2020-2025

We recently spoke with **Serkan Bahçeci, PhD, partner and head of infrastructure research at Arjun Infrastructure Partners**, about the lessons the infrastructure industry has (hopefully) learned during the past five years. Following is an excerpt of that conversation.

Since the pandemic, investors have faced inflation, rising interest rates, geopolitical shocks, and energy crises. In that environment, has infrastructure still proven itself as a resilient asset class?

To answer that properly, we need to go back to a more fundamental question: Why does infrastructure exist as an asset class in the first place? Infrastructure is actually a very broad universe. You can have a solar plant, an airport, a toll road, a regulated utility and a data center sitting in the same portfolio. On the surface, those assets look completely different. But they share one essential characteristic: downside protection. That is the common denominator.

For almost two decades, institutional investors allocated increasing amounts of capital into infrastructure based on that downside protection premise. But until recently, the theory was never truly tested. We talked for years about inflation protection despite the fact that inflation barely existed in developed markets after the 1980s. We mentioned infrastructure's low correlation to others, its stable cash flows, etc., but none of them had really been challenged. Everything was theoretical.

Then COVID happened. Within weeks, the world shut down. Passenger traffic collapsed by around 95 percent almost overnight. Transportation infrastructure effectively went bankrupt from a cash flow perspective. Debt covenants were broken everywhere.

Then shortly after that, Europe experienced a severe energy crisis due to the war in Ukraine. Energy prices surged dramatically. If you owned infrastructure assets that consumed energy rather than generated it, your operating costs quadrupled almost overnight.

Then inflation arrived for the first time in our professional lives. Immediately after that came aggressive interest rate increases from central banks.

So, infrastructure experienced its first real stress test.

The good news is that, overall, we passed the test. Infrastructure broadly delivered returns close to underwriting expectations despite all these shocks. The resilience proved to be real – but we also learned some very important lessons.

What were the biggest lessons learned from that period?

The biggest lesson was that downside protection is real, but it is not free. It requires discipline.

For example, on inflation protection, we learned that we need to go beyond having inflation-linked revenues. That part is relatively easy to understand. But reality is more complicated. Revenue adjustments usually happen gradually. Costs rise immediately. That became very obvious in 2022. Construction costs increased dramatically and unexpectedly. Labor costs rose sharply. Supply chains broke down; solar panel prices rose for the first time in history. If you were building infrastructure assets during that period, you were exposed no matter how well structured your contracts were. That was a very important lesson. If capital expenditures represent only a small part of a much larger operational portfolio, only then the risk becomes manageable. That is why we focus on a core to core-plus approach. We prefer expansion exposure to remain limited relative to operational cash flows. Infrastructure with the aim of downside protection, should not become a pure development strategy.

Did the rise in interest rates fundamentally change infrastructure investing?

Absolutely. For 40 years, investors operated in a declining interest-rate environment. Refinancing conditions continuously improved. Valuations benefited from lower discount rates. That era is over. Five years ago, government bond yields in Europe were close to zero. If you targeted a 7 percent equity risk premium, you ended up with an expected return around 7 percent. Today, government bond yields fluctuate between roughly 3 percent and 5 percent. If you want the same risk profile, expected returns as well as the valuation discount rate need to move into double digits. That is a huge structural shift. It also means that every refinancing assumption made in 2019 for future years surely failed. Now, that does not mean infrastructure stopped working as an asset class. It simply means investors need to be much more disciplined about valuation, leverage and risk selection. The world has always been a dynamic place. In infrastructure we learned it recently.

At the same time, private credit markets are facing turbulence, particularly in the mid-market. Is that creating problems for infrastructure investing?

Actually, for equity sponsors, the current environment is quite attractive. Private credit became very competitive during the past few years. Even though base rates are higher, lending margins are compressing because there is so much competition among lenders. At the same time, lenders are much more cautious about leverage. Nobody wants to overlever in a high base-rate environment after the lessons learned during recent crises. As a result, many

mid-market infrastructure companies need fresh equity capital for expansion projects, acquisitions or capex programs. That creates attractive opportunities for infrastructure equity investors.

Today, we are seeing equity return expectations in the low to mid teens, while debt instruments may only provide spreads of a few hundred basis points above base rates. The value, as well as inflation protection, is clearly in the equity. But again, discipline matters enormously. Chasing higher returns without understanding the underlying risks can become dangerous very quickly.

“Infrastructure exists because the world is uncertain. ... The real value of infrastructure lies in resilience.”

You mentioned discipline several times. How do you define that discipline in practice?

The key is remaining focused on downside protection. One important lesson from recent years is that risk increases exponentially while returns increase only linearly. That is critical. A manager targeting 15 percent to 18 percent gross returns may not ultimately deliver much more net return than a manager targeting lower-risk core to core-plus strategies once fees and volatility are considered. But the underlying risk profile may be dramatically different. Infrastructure only has value if it protects investors during difficult environments. If somebody believes the future will be perfectly stable – with no wars, no crises, declining interest rates, and uninterrupted economic growth – then infrastructure is probably not the best place to maximize returns. Infrastructure exists because the world is uncertain.

Infrastructure itself is changing rapidly. How do you think about newer sectors, such as data centers or batteries?

Six years ago, data centers barely existed in any European infrastructure portfolio. Today they represent a major investment theme. The same applies to batteries and energy storage. Costs are declining, technologies are improving, and markets are changing shape very rapidly. The important thing is not to become overly attached to any single sector. Can we reasonably forecast revenues for 10, 15 or 20 years? Are barriers to entry strong? Is demand resilient? If the answer is yes, then we are interested regardless of sector.

How do you decide what qualifies as “infrastructure” and what does not?

That is becoming a more important question. If you push the definition too far, almost anything could be called

infrastructure. You could argue that a dominant commercial office building has monopoly characteristics. But clearly that is not infrastructure in the traditional sense. So, we remain disciplined.

Regulated utilities are infrastructure. Transportation assets are infrastructure. Energy generation with long-term contracted revenues can absolutely qualify as core to core-plus infrastructure. But if the barriers to entry are unclear or if future revenues depend heavily on market speculation, we tend to stay away. We invest in businesses where downside protection is genuinely embedded into the structure of the asset.

Many LPs are increasingly seeking co-investment opportunities alongside fund commitments. Why is that trend growing?

There are several reasons. Sophisticated LPs increasingly know exactly what they want. A commingled fund gives broad exposure, but individual investors may want more exposure to particular sectors or geographies. That can improve overall portfolio construction significantly. But co-investing only works well if the LP has a clear strategy. Doing co-investments simply for the sake of doing them can become very inconsistent. The best LPs approach co-investments very selectively and strategically.

Finally, what is the key message infrastructure investors should take away from the past five years?

The past five years proved that the world can change very quickly. Pandemics, wars, inflation shocks, energy crises and higher interest rates are no longer theoretical scenarios. Infrastructure investing only works if you maintain discipline and keep downside protection at the center of the strategy. Today's infrastructure market can still offer attractive double-digit returns with meaningful cash yield. But the real value of infrastructure lies in resilience. That is the lesson the market learned. Infrastructure only works if you approach it with a core to core-plus mindset. That discipline is what preserves downside protection, and that is ultimately why the asset class exists.

CONTRIBUTOR



Serkan Bahçeci, PhD,
Partner and Head of
Infrastructure Research

CORPORATE OVERVIEW

Arjun Infrastructure Partners is a European infrastructure fund manager with approximately €7 billion (\$8 billion) assets under management. Founded in 2015, Arjun provides direct access to European mid-market core-plus infrastructure through funds, as well as separately managed accounts. Arjun has an experienced, sector specialist team of more than 40 professionals with decades of operational knowledge.

CORPORATE CONTACT – contact@arjuninfrastructure.com

This article presents the author's opinions reflecting current market conditions. It has been written for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.

Copyright © 2026 by Institutional Real Estate, Inc. Material may not be reproduced in whole or in part without the express written permission of the publisher.